

Status of Microfinance in the world

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Abstract

Objective: The present study tries to study the concept of microfinance around the world and India.

Method and statistical analysis: This study is based on analysis of secondary data. Various reports have been analyzed in order to achieve the objectives

Findings: The result shows microfinance is very prevalent now a day. Many independent studies carried out by external agencies which include the World Bank, the International Food Research Policy Institute (IFPRI) and the Bangladesh Institute of Development Studies (BIDS), reveals the Grameen Bank's and microfinance institutions provide positive impact on its poor and formerly poor borrowers, which has been properly documented for future reference.

Application/Improvements: Microfinance is a bridge to financial services for those small entrepreneurs and small businesses that have limited access to banking and related services. It provides for high quality and affordable financial services to low income people and households for productive activities, build assets, stabilize consumption, and protect against risk.

Keywords: Microfinanace, Grameen bank, Financial inclusion, Entrepreneurship

Introduction

Microfinance is a bridge to financial services for those small entrepreneurs and small businesses that have access to banking and related services. The mode of providing these is made possible through:-

- (1) Relationship-based banking for individual entrepreneurs and small businesses, which ensures loaning to the right and deserving people
- (2) Group-based models, which means that several entrepreneurs join together as a group to apply for loans and other services.

(3) For example South African regions microfinance is described as the supply of financial services to low-income employees, resembling the retail finance model prevalent in mainstream banking.

(4) For some, microfinance is a movement aimed at a " world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers". Such models run through the support of micro-entrepreneurs and small businesses helps in the economic development, employment and growth of that region.

Microfinance provides for high quality and affordable financial services to low income people and households for productive activities, build assets, stabilize consumption, and protect against risk. The initial definition of term microcredit was closely associated with very small loans to unsalaried borrowers with little or no collateral- but the term has since evolved to include a range of financial products, such as savings, insurance, payments and remittances. Currently Microfinance understands financial needs of their target clients and have in place tailor made products and methodologies to help them in every sphere of life.

Objective

To study the concept of microfinance around the world and India.

Data analysis

Microfinance in the World

To start with, tiny loans to groups of poor women to invest in micro-businesses were started as experimental programs in Bangladesh, Brazil, and a few other countries. This type of microenterprise credit was based on solidarity group. It is a unique way of lending in which every member of a group guarantees repayment of all members. These "microenterprise lending" programs are focused on credit for income generating activities. Sometimes it has an element of forced savings schemes targeting very poor (often women) borrowers.

- To address poverty in Latin America's cities, Joseph Blatchford founded **ACCION International**, started as a student-run volunteer effort in the shanty towns of Caracas with \$90,000 raised from private companies. And now ACCION has assumed the status of one of the premier microfinance organizations in the world, with a network of lending partners spread across Latin America, the United States and Africa.

AmanahIkhtiar, Malaysia

The first microfinance institution in Malaysia was AmanahIkhtiar Malaysia. It was the largest Grameen Bank Replication outside Bangladesh. It was developed in 1988, under the Trustee Incorporation Act 258 (revised 1981). **AmanahIkhtiar** is a poverty-oriented microfinance institution that provides loans only to the poor.

Caja Los Andes, Bolivia

In the highly competitive Bolivian microfinance market, Caja Los Andes (CLA) has distinguished itself as a profitable, diversified provider of individual loans which is now renamed as Banco Los Andes Procredit since January 2005. After inheriting a three-year-old urban lending portfolio from its parent organization (Procrédito) in 1995, CLA immediately began to expand its operations to rural areas and added agricultural loans to its portfolio. CLA has been performing despite an onslaught of recession in 1999 and still continues to hold close to 10 percent of its total portfolio in rural and agricultural loans (The World Bank, 2016).

BancoSol in 1992

Since its inception in 1992, BancoSol continues to make history in the microfinance industry with a record disbursement of over U.S. \$1 billion in operations and support of microcredit. BancoSol is implementing several complementary products, standardizing and improving credit management and re-engineering its improvement process with Accion's support. Most of BancoSol's active clients are females who work as market vendors, seamstresses, bakers, candy makers and other such roles. For reaching this US\$ one billion record, it started with the first loans as low as \$50. The secret of its success lies in effectively reaching out to the poorest of the economically active population. To provide low-income families with an opportunity for a better future through access to a full range of high-quality financial services, is the mission of BancoSol. It is working in Africa, Asia, Latin America and Caribbean and North America.

Key indicators as on December, 2015 are as (Accion, 2016):

Active borrowers of 251,512

Total amount loaned US\$842,048,000

The active portfolios to its account amount to \$1,172,497,000

Saving balance of \$1,063,545,000.

Bank Perkreditan Rakyat (BPR)

The largest microfinance institution in Indonesia is The Bank Perkreditan Rakyat which was commenced in 1895. As of now, BPR has become the largest microfinance system in Indonesia with close to 9,000 branches.

Microenterprise Access to Banking Services (MABS): In Philippine rural banking industry, MABS Program is the first initiative designed in this direction. It ensures acceleration of national economic transformation by encouraging significantly expansion of microenterprise access to microfinance services. MABS Program also assists client rural banks in the Philippines to increase the financial services they provide to the microenterprise sector. They do this by providing microfinance technical assistance and training to rural banks. They train banks to extend services in microfinance loan and deposit, specially tailored for microenterprise clients.

Working directly with over 100 rural banks since its inception in 1998, the MABS Program is designed and destined to develop and expand their microfinance services in the Philippines targeting the lower socio-economic groups and micro entrepreneurs to help them operate in a profitable, but equitable manner.

The U.S. Agency for International Development (USAID) has financially aided this program to implement it in partnership with the Rural Bankers Association of the Philippines (RBAP). Oversight of the Program is provided to Philippine government by the Mindanao Economic Development Council (MEDCo) (MABS, 2016).

The International NGO, Techno serve: A nonprofit organization operating in 29 countries, TechnoServe is a leader in harnessing the power of the private sector to help people lift themselves out of poverty. By linking people to information, capital and markets, we have helped millions to create lasting prosperity for their families and communities.

TechnoServe is the brain child of Ed Bullard who travelled to Ghana in 1963 for a year. He had gone there with his family for volunteer services for the poor. He felt pathetic over the dismal life conditions of the Ghanaian citizens and analyzed that they were not able to make their lives better despite very hard work. Since the people were illiterate, they did not have knowledge about what is happening in the world around. So, in 1968, Ed Bullard launched Techno Serve – short for “technology in the service of mankind.” He envisioned Techno

Serve as a different type of nonprofit organization that would help poor people to tap market opportunities as by connecting them to the world at large(TechnoServe, 2016).

The Cooperative League of the USA (CLUSA) has been instrumental in launching its Rural Group Enterprise Development Program in Mozambique in mid-1995. At this stage the country was passing through a struggling phase of overcoming certain conflicts and settling into a market economy. Being a democratically run business associations, CLUSA focused its efforts on organizing impoverished, isolated farmers in the Northern provinces, where the commercialization of cash crops, such as maize, cotton and cashews, was gaining momentum. They helped them to make farmer associations and sufficiently trained them to pool crops and bargain to get higher price. This resulted into 85% increased farm revenues annually.

Forms of microfinance in India:

- NGOs engaged in microfinance (NGO MFIs), comprising of Societies and Trusts;
 - Cooperatives registered under the conventional state-level cooperative acts, the national level Multi-State Cooperative Societies Act (MSCA 2002), or under the new State-level Mutually Aided Cooperative Societies Act (MACS Act);
 - Section 25 Companies (not-for profit);
 - For-Profit NBFCs; and
 - NBFC-MFIs
- (CUTS International ,2013).

NGO MFIs: Some 500 NGOs are actively involved to provide microfinance services and operate as non-profits, while a few of these NGO MFIs perform non- financial operations as well. These organisation fall within the definition of societies/trusts and are, therefore, registered under the Societies Registration Act of 1860 or as a Trust under the Indian Trust Act of 1882.

Cooperative Societies: Similarly there are about 100 MFIs in India operating as Cooperatives, registered under the Cooperative Societies Act of the respective state, the Central Multi-State Cooperative Act, 1984, or the new state-level MACS Act. The MACS Act was pioneered by Andhra Pradesh, which sought to prevent political interference in

cooperative societies' operations. Some large cooperatives have acquired a banking license from the RBI to operate as cooperative banks.

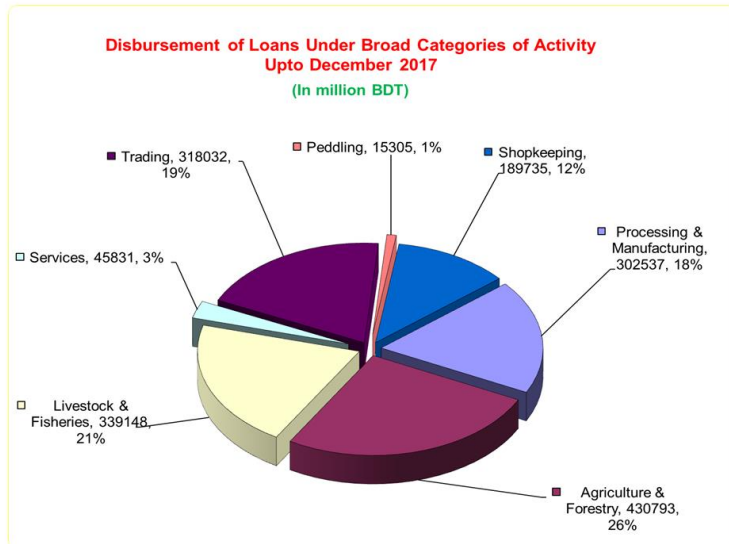
Section 25 Companies: Some of the NGO MFIs assume a more formal corporate structure and are registered under the Companies Act, 1956, as a Section 25 Company. These companies offer a structure that can more easily transform into an NBFC. They have the rights to accept equity investments but cannot offer dividends. Also equity investments cannot be withdrawn at the closing of the company. That is why these are not very popular or prevalent.

NBFCs: The mainstream financial sector in India is divided primarily into two categories, banks and NBFCs. Banks adhere to much more stringent regulation than NBFCs because they are all permitted to accept public deposits, and are considered to have consequent systemic risk. The NBFC encompasses many different types of financial companies, which are all subject to the same regulation requirements. Many MFIs have recently registered as NBFCs to take advantage of access to capital markets. NBFCs account for the great majority of the microfinance market in India, with about 50 NBFCs responsible for 80 per cent of all microfinance portfolios.

NBFC-MFIs: For-profit institutions that qualify for priority sector lending funds are registered as NBFC-MFIs. This NBFC sub-category was created by RBI in May 2011 to classify NBFCs operating as MFIs which meet certain requirements. Currently, it is unclear how many NBFCs will elect to register as NBFC-MFIs, and how many will continue to operate as NBFCs. At this point, only priority sector funding requirements have been made applicable for NBFC-MFIs, though it seems that all existing NBFC regulations also apply to BFC-MFIs.

Loan by Grameen bank

As of December, 2017, it has 8.93 million borrowers, 97 percent of whom are women. With 2,568 branches, GB provides services in 81,400 villages, covering more than 97 percent of the total villages in Bangladesh.(Bank for the poor)



Source: disbursement of loan by Grammen bank

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